

SERFF Tracking Number:	NCCI-125711071	State:	Arkansas
Filing Company:	NCCI	State Tracking Number:	EFT \$100
Company Tracking Number:	R-1398-AR		
TOI:	16.0 Workers Compensation	Sub-TOI:	16.0004 Standard WC
Product Name:	R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities		
Project Name/Number:	/		

## Filing at a Glance

Company: NCCI

Product Name: R-1398- 2008 Update to SERFF Tr Num: NCCI-125711071 State: Arkansas

Retrospective Rating Plan Parameters- State  
Hazard Group Relativities

TOI: 16.0 Workers Compensation

SERFF Status: Closed

State Tr Num: EFT \$100

Sub-TOI: 16.0004 Standard WC

Co Tr Num: R-1398-AR

State Status: Fees verified and  
received

Filing Type: Rule

Co Status:

Reviewer(s): Betty Montesi, Carol  
Stiffler

Authors: Lesley O'Brien, Alison  
Herwig, Frank Gnolfo, Terri  
Robinson

Disposition Date: 06/30/2008

Date Submitted: 06/30/2008

Disposition Status: Approved

Effective Date Requested (New): 01/01/2009

Effective Date (New): 01/01/2009

Effective Date Requested (Renewal): 01/01/2009

Effective Date (Renewal):

State Filing Description:

## General Information

Project Name:

Status of Filing in Domicile:

Project Number:

Domicile Status Comments:

Reference Organization:

Reference Number:

Reference Title:

Advisory Org. Circular:

Filing Status Changed: 06/30/2008

State Status Changed: 06/30/2008

Deemer Date:

Corresponding Filing Tracking Number:

Filing Description:

This item updates the State Hazard Group Relativities in NCCI's Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance.

Please note: You may see notice a gap in the page numbers for the exhibits. This is a result of our sending your

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Product Name: R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities  
Project Name/Number: /

appropriate states's factors only.

## Company and Contact

### Filing Contact Information

Terri Robinson, State Relations Executive  
46714 Highway 10  
Perryville, AR 72126  
terri\_robinson@ncci.com  
(501) 753-5180 [Phone]  
(561) 893-5655[FAX]

### Filing Company Information

NCCI  
901 Peninsula Corporate Circle  
Boca Raton, FL 33487  
(561) 893-3186 ext. [Phone]  
CoCode: State of Domicile: Florida  
Group Code: Company Type:  
Group Name: State ID Number:  
FEIN Number: 65-0439698  
-----

## Filing Fees

Fee Required? Yes  
Fee Amount: \$100.00  
Retaliatory? No  
Fee Explanation: 1 Rule filing  
Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
NCCI	\$100.00	06/30/2008	21137234

SERFF Tracking Number: NCCI-125711071 State: Arkansas  
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Product Name: R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities  
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## Correspondence Summary

### Dispositions

Status	Created By	Created On	Date Submitted
Approved	Carol Stiffler	06/30/2008	06/30/2008

<i>SERFF Tracking Number:</i>	<i>NCCI-125711071</i>	<i>State:</i>	<i>Arkansas</i>
<i>Filing Company:</i>	<i>NCCI</i>	<i>State Tracking Number:</i>	<i>EFT \$100</i>
<i>Company Tracking Number:</i>	<i>R-1398-AR</i>		
<i>TOI:</i>	<i>16.0 Workers Compensation</i>	<i>Sub-TOI:</i>	<i>16.0004 Standard WC</i>
<i>Product Name:</i>	<i>R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities</i>		
<i>Project Name/Number:</i>	<i>/</i>		

## **Disposition**

Disposition Date: 06/30/2008

Effective Date (New): 01/01/2009

Effective Date (Renewal):

Status: Approved

Comment:

Rate data does NOT apply to filing.

SERFF Tracking Number: NCCI-125711071 State: Arkansas  
 Filing Company: NCCI State Tracking Number: EFT \$100  
 Company Tracking Number: R-1398-AR  
 TOI: 16.0 Workers Compensation Sub-TOI: 16.0004 Standard WC  
 Product Name: R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities  
 Project Name/Number: /

Item Type	Item Name	Item Status	Public Access
Supporting Document	Uniform Transmittal Document-Property & Casualty	Approved	Yes
Supporting Document	NAIC Loss Cost Filing Document for Workers' Compensation	Approved	Yes
Supporting Document	NAIC loss cost data entry document	Approved	Yes
Supporting Document	Filing Memorandum	Approved	Yes
Rate	Exhibits 1 & 2	Approved	Yes
Rate	Exhibits 3 & 4	Approved	Yes

<i>SERFF Tracking Number:</i>	<i>NCCI-125711071</i>	<i>State:</i>	<i>Arkansas</i>
<i>Filing Company:</i>	<i>NCCI</i>	<i>State Tracking Number:</i>	<i>EFT \$100</i>
<i>Company Tracking Number:</i>	<i>R-1398-AR</i>		
<i>TOI:</i>	<i>16.0 Workers Compensation</i>	<i>Sub-TOI:</i>	<i>16.0004 Standard WC</i>
<i>Product Name:</i>	<i>R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities</i>		
<i>Project Name/Number:</i>	<i>/</i>		

## **Rate Information**

Rate data does NOT apply to filing.

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Filing Company: NCCI State Tracking Number: EFT \$100  
Company Tracking Number: R-1398-AR  
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Project Name/Number: /

## Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:	
Approved	Exhibits 1 & 2	Countrywide Relativities	Replacement	R-1396	R1398 Countrywide Exhibit 1.pdf R1398 Countrywide Exhibit 2.pdf
Approved	Exhibits 3 & 4	Arkansas Relativities	Replacement	R-1396	R1398 Arkansas Exhibit 3.pdf R1398 Arkansas Exhibit 4.pdf

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**ITEM R-1398 - 2008 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS - STATE HAZARD GROUP RELATIVITIES**


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**EXHIBIT 1**
**RETROSPECTIVE RATING PLAN MANUAL  
STATE HAZARD GROUP RELATIVITIES**

State	Hazard Group						
	A	B	C	D	E	F	G
AK	1.75	1.31	1.17	1.05	0.91	0.74	0.56
AL	1.61	1.20	1.06	0.95	0.82	0.66	0.49
AR	1.94	1.45	1.28	1.15	0.99	0.80	0.59
AZ	1.71	1.27	1.13	1.01	0.87	0.70	0.52
CO	1.87	1.41	1.25	1.13	0.97	0.78	0.59
CT	1.70	1.26	1.12	1.00	0.86	0.70	0.52
DC	1.78	1.33	1.17	1.05	0.90	0.73	0.55
FL	1.82	1.39	1.23	1.11	0.96	0.78	0.56
GA	1.45	1.08	0.96	0.86	0.74	0.60	0.46
HI	2.18	1.62	1.45	1.30	1.13	0.92	0.70
IA	1.83	1.37	1.22	1.10	0.95	0.77	0.59
ID	1.89	1.42	1.27	1.15	1.00	0.82	0.62
IL	1.24	0.95	0.86	0.77	0.66	0.54	0.42
IN	2.08	1.58	1.42	1.29	1.13	0.93	0.72
KS	1.77	1.34	1.20	1.08	0.93	0.76	0.58
KY	1.50	1.11	0.98	0.88	0.75	0.61	0.45
LA	1.63	1.21	1.08	0.97	0.84	0.68	0.52
MD	1.75	1.30	1.16	1.04	0.89	0.73	0.55
ME	1.66	1.23	1.10	0.99	0.86	0.70	0.53
MI	2.12	1.59	1.43	1.30	1.13	0.94	0.72
MO	2.14	1.63	1.46	1.31	1.13	0.92	0.70
MS	1.82	1.36	1.21	1.09	0.94	0.77	0.59
MT	1.64	1.23	1.09	0.97	0.84	0.68	0.51
NC	1.25	0.94	0.84	0.75	0.64	0.52	0.40
NE	1.69	1.27	1.13	1.01	0.87	0.71	0.54
NH	1.68	1.24	1.10	0.99	0.86	0.70	0.53
NM	1.77	1.32	1.18	1.06	0.92	0.75	0.58
NV	1.89	1.41	1.25	1.12	0.96	0.77	0.58
OK	1.71	1.29	1.14	1.02	0.88	0.71	0.54
OR	2.18	1.62	1.43	1.28	1.09	0.88	0.64
RI	2.16	1.61	1.43	1.29	1.12	0.91	0.70
SC	1.30	0.98	0.88	0.79	0.68	0.55	0.42
SD	1.85	1.38	1.22	1.10	0.95	0.77	0.58
TN	1.76	1.32	1.18	1.06	0.92	0.74	0.56
UT	1.99	1.49	1.32	1.19	1.02	0.83	0.62
VA	1.40	1.04	0.92	0.83	0.71	0.58	0.43
VT	1.70	1.26	1.12	1.01	0.87	0.71	0.54
WI	2.18	1.62	1.45	1.31	1.13	0.92	0.71



**ITEM R-1398 - 2008 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS - STATE HAZARD GROUP RELATIVITIES****EXHIBIT 2****RETROSPECTIVE RATING PLAN MANUAL  
STATE HAZARD GROUP RELATIVITIES**

State	Hazard Group			
	1*	2*	3*	4*
AK	1.41	1.13	0.82	0.56
AL	1.28	1.02	0.74	0.49
AR	1.55	1.24	0.89	0.59
AZ	1.37	1.09	0.78	0.52
CO	1.51	1.21	0.88	0.59
CT	1.34	1.08	0.78	0.52
DC	1.43	1.14	0.82	0.55
FL	1.50	1.19	0.87	0.56
GA	1.16	0.93	0.67	0.46
HI	1.74	1.40	1.03	0.70
IA	1.46	1.18	0.86	0.59
ID	1.51	1.23	0.91	0.62
IL	1.00	0.82	0.61	0.42
IN	1.67	1.38	1.03	0.72
KS	1.42	1.16	0.84	0.58
KY	1.18	0.95	0.68	0.45
LA	1.30	1.04	0.76	0.52
MD	1.40	1.12	0.81	0.55
ME	1.32	1.06	0.78	0.53
MI	1.70	1.38	1.04	0.72
MO	1.73	1.41	1.03	0.70
MS	1.45	1.17	0.86	0.59
MT	1.32	1.05	0.75	0.51
NC	1.00	0.81	0.58	0.40
NE	1.35	1.09	0.79	0.54
NH	1.33	1.07	0.78	0.53
NM	1.42	1.14	0.83	0.58
NV	1.51	1.20	0.87	0.58
OK	1.37	1.11	0.80	0.54
OR	1.74	1.38	0.97	0.64
RI	1.72	1.39	1.01	0.70
SC	1.05	0.85	0.62	0.42
SD	1.48	1.18	0.86	0.58
TN	1.41	1.14	0.82	0.56
UT	1.59	1.27	0.92	0.62
VA	1.12	0.89	0.64	0.43
VT	1.34	1.09	0.79	0.54
WI	1.70	1.40	1.03	0.71

\* Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four hazard groups referenced in this item. If a carrier does not file to elect the four hazard groups, they are considered to have accepted the seven hazard groups.

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**ITEM R-1398 - 2008 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS - STATE HAZARD GROUP RELATIVITIES**


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**EXHIBIT 3**
**DEVELOPMENT OF ARKANSAS HAZARD GROUP RELATIVITIES  
FOR HAZARD GROUPS A TO G**

- Step 1.** Individual state severities are calculated for each hazard group.
- Step 2.** The severities are weighted with the countrywide severities by hazard group using a credibility that varies by state. For this purpose, 155,000 claims are regarded as fully credible and the square root rule is used to compute partial credibilities.
- Step 3.** Credibility weighted severities for each state hazard group are produced. A new countrywide average severity is calculated by taking the weighted average of the formula for state severities using claim counts as weights.
- Step 4.** The relativities are calculated by dividing the countrywide severity by the individual state hazard group severities.

<b><u>Step 1</u></b>	<b><u>Hazard Group</u></b>	<b><u>Arkansas</u></b>	<b><u>Countrywide</u></b>
Severities	A	22,586	33,011
	B	29,993	44,215
	C	34,376	49,899
	D	38,405	55,494
	E	45,279	64,458
	F	57,113	79,499
	G	81,352	105,328
<b><u>Step 2</u></b>	Claim Count	=	17,127
	Credibility	=	$(17,127 / 155,000)^{0.5} = 0.332$
<b><u>Step 3</u></b>	<b><u>Hazard Group</u></b>	<b><u>Arkansas</u></b>	
Credibility	A	29,546	= $(0.332)(22,586) + (0.668)(33,011)$
Weighted	B	39,488	
Severities	C	44,739	
	D	49,813	
	E	58,082	
	F	72,057	
	G	97,358	
	Countrywide Overall:	57,375	
<b><u>Step 4</u></b>	<b><u>Hazard Group</u></b>	<b><u>Arkansas</u></b>	
Relativities	A	1.94	= $57,375 / 29,546$
	B	1.45	
	C	1.28	
	D	1.15	
	E	0.99	
	F	0.80	
	G	0.59	

Note: The underlying data source for the above calculations is NCCI's **URE Workers Compensation Statistical Plan** (WCSP), excluding medical-only claims. The WCSP data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation.

**ITEM R-1398 - 2008 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS - STATE HAZARD GROUP RELATIVITIES**


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**EXHIBIT 4**
**DEVELOPMENT OF ARKANSAS HAZARD GROUP RELATIVITIES  
FOR HAZARD GROUPS 1 TO 4\***

- Step 1.** Individual state severities are calculated for each hazard group.
- Step 2.** The severities are weighted with the countrywide severities by hazard group using a credibility that varies by state. For this purpose, 155,000 claims are regarded as fully credible and the square root rule is used to compute partial credibilities.
- Step 3.** Credibility weighted severities for each state hazard group are produced. A new countrywide average severity is calculated by taking the weighted average of the formula for state severities using claim counts as weights.
- Step 4.** The relativities are calculated by dividing the countrywide severity by the individual state hazard group severities.

<b>Step 1</b>	<b>Hazard Group</b>	<b>Arkansas</b>	<b>Countrywide</b>
Severities	1	28,206	41,374
	2	35,618	51,657
	3	50,853	71,203
	4	81,352	105,328
<b>Step 2</b>	Claim Count	= 17,127	
	Credibility	= $(17,127 / 155,000)^{0.5}$	= 0.332
<b>Step 3</b>	<b>Hazard Group</b>	<b>Arkansas</b>	
Credibility	1	36,997	= $(0.332)(28,206) + (0.668)(41,374)$
Weighted	2	46,325	
Severities	3	64,438	
	4	97,358	
	Countrywide Overall:	57,375	
<b>Step 4</b>	<b>Hazard Group</b>	<b>Arkansas</b>	
Relativities	1	1.55	= $57,375 / 36,997$
	2	1.24	
	3	0.89	
	4	0.59	

Note: The underlying data source for the above calculations is NCCI's **URE Workers Compensation Statistical Plan** (WCSP), excluding medical-only claims. The WCSP data for each state is adjusted accordingly, as reflected in the data underlying the Excess Loss Factor (ELF) calculation

\* Carriers that elect to use NCCI's four hazard groups must make a filing in each state to adopt the filed four hazard groups referenced in this item. If a carrier does not file to elect the four hazard groups, they are considered to have accepted the seven hazard groups.

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Filing Company:	NCCI	State Tracking Number:	EFT \$100
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TOI:	16.0 Workers Compensation	Sub-TOI:	16.0004 Standard WC
Product Name:	R-1398- 2008 Update to Retrospective Rating Plan Parameters- State Hazard Group Relativities		
Project Name/Number:	/		

## Supporting Document Schedules

<b>Satisfied -Name:</b>	Uniform Transmittal Document- Property & Casualty	<b>Review Status:</b> Approved	06/30/2008
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**Comments:**

**Attachment:**

P&C Transmittal- R-1398 AR.pdf

<b>Bypassed -Name:</b>	NAIC Loss Cost Filing Document for Workers' Compensation	<b>Review Status:</b> Approved	06/30/2008
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**Bypass Reason:** NA

**Comments:**

<b>Bypassed -Name:</b>	NAIC loss cost data entry document	<b>Review Status:</b> Approved	06/30/2008
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**Bypass Reason:** NA

**Comments:**

<b>Satisfied -Name:</b>	Filing Memorandum	<b>Review Status:</b> Approved	06/30/2008
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**Comments:**

**Attachment:**

R-1398 Filing Memorandum.pdf

## Property &amp; Casualty Transmittal Document

<b>1. Reserved for Insurance Dept. Use Only</b>	<b>2. Insurance Department Use only</b>	
	a. Date the filing is received:	
	b. Analyst:	
	c. Disposition:	
	d. Date of disposition of the filing:	
	e. Effective date of filing:	
	New Business	
	Renewal Business	
	f. State Filing #:	
	g. SERFF Filing #:	
h. Subject Codes		

<b>3. Group Name</b>					<b>Group NAIC #</b>
<b>4. Company Name(s)</b>	<b>Domicile</b>	<b>NAIC #</b>	<b>FEIN #</b>	<b>State #</b>	

<b>5. Company Tracking Number</b>	
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Contact Info of Filer(s) or Corporate Officer(s) [include toll-free number]

<b>6. Name and address</b>	<b>Title</b>	<b>Telephone #s</b>	<b>FAX #</b>	<b>e-mail</b>
<b>7. Signature of authorized filer</b>				
<b>8. Please print name of authorized filer</b>				

Filing information (see General Instructions for descriptions of these fields)

<b>9. Type of Insurance (TOI)</b>				
<b>10. Sub-Type of Insurance (Sub-TOI)</b>				
<b>11. State Specific Product code(s)(if applicable)[See State Specific Requirements]</b>				
<b>12. Company Program Title (Marketing title)</b>				
<b>13. Filing Type</b>	<input type="checkbox"/> Rate/Loss Cost <input type="checkbox"/> Rules <input type="checkbox"/> Rates/Rules <input type="checkbox"/> Forms <input type="checkbox"/> Combination Rates/Rules/Forms <input type="checkbox"/> Withdrawal <input type="checkbox"/> Other (give description)			
<b>14. Effective Date(s) Requested</b>	New:		Renewal:	
<b>15. Reference Filing?</b>	<input type="checkbox"/> Yes <input type="checkbox"/> No			
<b>16. Reference Organization (if applicable)</b>				
<b>17. Reference Organization # &amp; Title</b>				
<b>18. Company's Date of Filing</b>				
<b>19. Status of filing in domicile</b>	<input type="checkbox"/> Not Filed <input type="checkbox"/> Pending <input type="checkbox"/> Authorized <input type="checkbox"/> Disapproved			

## Property & Casualty Transmittal Document—

20.	This filing transmittal is part of Company Tracking #	
21.	<b>Filing Description</b> [This area can be used in lieu of a cover letter or filing memorandum and is free-form text]	

[illegible]

\*\*\*Refer to the each state's checklist for additional state specific requirements (i.e. # of additional copies required, other state specific forms, etc.)

**FORM FILING SCHEDULE**

(This form must be provided ONLY when making a filing that includes forms)

(Do not refer to the body of the filing for the forms listing, unless allowed by state.)

<b>1.</b>	<b>This filing transmittal is part of Company Tracking #</b>				
<b>2.</b>	<b>This filing corresponds to rate/rule filing number</b> (Company tracking number of rate/rule filing, if applicable)				
<b>3.</b>	<b>Form Name /Description/Synopsis</b>	<b>Form # Include edition date</b>	<b>Replacement Or withdrawn?</b>	<b>If replacement, give form # it replaces</b>	<b>Previous state filing number, if required by state</b>
01			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
02			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
03			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
04			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
05			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
06			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
07			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
08			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
09			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		
10			<input type="checkbox"/> New <input type="checkbox"/> Replacement <input type="checkbox"/> Withdrawn		

PC FFS-1

**RATE/RULE FILING SCHEDULE**

(This form must be provided ONLY when making a filing that includes rate-related items such as Rate; Rule; Rate & Rule; Reference; Loss Cost; Loss Cost & Rule or Rate, etc.)

(Do not refer to the body of the filing for the component/exhibit listing, unless allowed by state.)

<b>1.</b>	<b>This filing transmittal is part of Company Tracking #</b>	
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<b>2.</b>	<b>This filing corresponds to form filing number</b> (Company tracking number of form filing, if applicable)	
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☐ Rate Increase      ☐ Rate Decrease      ☐ Rate Neutral (0%)

<b>3.</b>	<b>Filing Method (Prior Approval, File &amp; Use, Flex Band, etc.)</b>	
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<b>4a.</b>	<b>Rate Change by Company (As Proposed)</b>
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Company Name	Overall % Indicated Change (when applicable)	Overall % Rate Impact	Written premium change for this program	# of policyholders affected for this program	Written premium for this program	Maximum % Change (where required)	Minimum % Change (where required)

<b>4b.</b>	<b>Rate Change by Company (As Accepted) For State Use Only</b>
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Company Name	Overall % Indicated Change (when applicable)	Overall % Rate Impact	Written premium change for this program	# of policyholders affected for this program	Written premium for this program	Maximum % Change	Minimum % Change

<b>5.</b>	<b>Overall Rate Information (Complete for Multiple Company Filings only)</b>
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		COMPANY USE	STATE USE
<b>5a</b>	<b>Overall percentage rate indication (when applicable)</b>		
<b>5b</b>	<b>Overall percentage rate impact for this filing</b>		
<b>5c</b>	<b>Effect of Rate Filing – Written premium change for this program</b>		
<b>5d</b>	<b>Effect of Rate Filing – Number of policyholders affected</b>		

<b>6.</b>	<b>Overall percentage of last rate revision</b>	
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<b>7.</b>	<b>Effective Date of last rate revision</b>	
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<b>8.</b>	<b>Filing Method of Last filing (Prior Approval, File &amp; Use, Flex Band, etc.)</b>	
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<b>9.</b>	<b>Rule # or Page # Submitted for Review</b>	<b>Replacement or withdrawn?</b>	<b>Previous state filing number, if required by state</b>
01		[ ] New [ ] Replacement [ ] Withdrawn	
02		[ ] New [ ] Replacement [ ] Withdrawn	
03		[ ] New [ ] Replacement [ ] Withdrawn	



## FILING MEMORANDUM

### ITEM R-1398—2008 UPDATE TO RETROSPECTIVE RATING PLAN PARAMETERS—STATE HAZARD GROUP RELATIVITIES

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(To be effective 12:01 a.m. on January 1, 2009, applicable to new and renewal voluntary policies only.)

#### PURPOSE

This item updates the State Hazard Group Relativities in NCCI's *Retrospective Rating Plan Manual for Workers Compensation and Employers Liability Insurance*.

#### BACKGROUND

The Retrospective Rating Plan adjusts the risk premium of a policy according to the loss experience during the effective period of the policy. At the simplest level, an insured's retrospective premium is determined by the formula  $R = (b + cL)T$ , where:

R	=	Retrospective premium, subject to minimum and maximum amounts
b	=	Basic premium
c	=	Loss conversion factor, generally reflecting loss adjustment expense
L	=	Actual incurred loss during the effective policy period
T	=	Tax multiplier

The retrospective premium, R, is not known until after the policy has expired and the actual losses are fully developed.

The basic premium contains provisions for the expenses of the carrier. It also includes a net insurance charge, which results from the maximum and minimum limitations on the retrospective premium. The net insurance charge reflects the charge to compensate for the possibility that R will exceed the maximum premium amount. It also reflects the savings resulting from the possibility that R will be less than the minimum premium amount. The net insurance charge is the difference between the charge for the maximum and the savings from the minimum.

The Table of Insurance Charges contains the excess ratios needed to quantify the insurance charge and savings described above. The ratio of the loss limit to expected losses—the entry ratio—is used to look up the values in the Table of Insurance Charges. The charges depend not only on the maximum and minimum subject losses, but also on the size of the insured. This is because the expected variation in losses is lower for larger employers.

#### State Hazard Group Relativities

The variation in the loss ratios for employers in the lower hazard groups generally should be smaller than the variation for employers in the higher hazard groups. The State Hazard Group Relativity Factors adjust for this difference by placing lower hazard group employers in a higher Expected Loss Size Range and higher

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hazard group employers in a lower Expected Loss Size Range than would otherwise be the case. This adjustment affects the column selection in the Table of Insurance Charges, which then impacts the basic premium portion of the retrospective policy premium.

The State Hazard Group Relativities should be updated regularly to reflect changes in the circumstances (e.g., state statutory benefit levels, inflation, etc.) underlying each state's severity.

## PROPOSAL

It is proposed that the attached exhibits, showing the revisions to NCCI's *Retrospective Rating Plan Manual*, be adopted. This filing updates the State Hazard Group Relativities of the Retrospective Rating Plan. The exhibits provide the following:

- **Exhibit 1** for the State Hazard Group Relativities—seven hazard groups
- **Exhibit 2** for the State Hazard Group Relativities—four hazard groups
- **Exhibit 3** provides a description of the development of the relativities for the seven hazard groups
- **Exhibit 4** provides a description of the development of the relativities for the four hazard groups.

As explained in these exhibits, individual state severities, as well as countrywide severities, are used in the calculation of the relativities.

## IMPACT

### State Hazard Group Relativities

Retrospective rating should produce premium that is equitably distributed to all insured employers, but, on average, close to the guaranteed cost premium. The object of this change is to maintain the aggregate expected balance, although the impact will vary slightly for individual insured employers. Therefore, insurance charges and premiums will be higher for some insureds and lower for others. For most of the insured employers electing retrospective rating, the impact on final premium from these changes is expected to be minimal.

The improved equity afforded by retrospective rating from this change will result in slightly lower average insurance charges for some states, and slightly higher charges for others. However, the statewide impact will be negligible. The program is designed to be revenue-neutral countrywide.

## IMPLEMENTATION

The State Hazard Group Relativities will be effective 12:01 a.m. on January 1, 2009, applicable to new and renewal voluntary policies only.

Exceptions:

- In Hawaii, the effective date is determined upon regulatory approval of the individual carrier's election to adopt these changes.

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- In Virginia, these changes will become effective for policies effective on or after 12:01 a.m. April 1, 2009.

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